**Semester II (PG)**

**Subject: Marketing Management**

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**Lecture Note 1**

**RESALE PRICE MAINTENANCE (RPM)**

Resale price maintenance (RPM) is a channel pricing strategy that restricts the price below which a reseller may sell a manufacturer’s product.

**Price maintenance**, also called **resale price maintenance**, measures taken by manufacturers or distributors to control the resale prices of their products charged by resellers. The practice is more effective in retail sales than at other levels of marketing. Only a few types of goods have come under such controls, the leading examples being drugs and pharmaceuticals, books, photographic supplies, liquors, miscellaneous household appliances, and various specialty goods.

Resale price maintenance a price in which the manufacturer and distributor or retail mutually agree that the re-seller of the product will sell it at or above the minimum resale price or at or below maximum resale price. Maximum resale price is the price ceiling and minimum resale price is price floor. A re-seller of the product (retailer or distributor) cannot sell the product above price ceiling or below the price floor.

If any retailer or distributor refuses to do so covertly or overtly, manufacturer has the right to terminate business practice with that retailer or distributor.

Resale price maintenance prevents fierce competition in the market and protect small retailer and distributor who cannot use large scale of sales to gain profit even at low selling price. Minimum resale price saves those distributors who invest in the promotion of the manufacturer’s product by helping them in recovering their cost from consumers.

Manufacturers also support price maintenance, since it ensures that the market is fair for all re-sellers and thus, they are getting equal profit on selling the manufacturer’s product. Otherwise, fierce price competition could drive the price and profit down for the retailers and eventually for the manufacturers.

***Example: Flipkart Big billion-day offer.***

Flipkart on this day reduced the prices of many of its products including appliances drastically by 30% to 80% to attract the customers. Many people logged on to flipkart to get lucrative deals on electronics. This led to many complaints from brick and mortar stores to the manufacturers that Flipkart is distorting the prices of many products that they are selling into the market leading to less sales from physical stores. Manufacturing firms held a meeting with Flipkart and warned them that if they continue to distort the price in the market, they will not be providing warranty and other customer support to the products sold from Flipkart. Also, many retailers filed complaints to the commerce ministry and asked the govt. to take some serious steps and formulate some policies for controlling e-commerce predatory pricing.

## **Forms of Resale price maintenance**

There are two forms of resale price maintenance. They are:

1. Collective resale price maintenance; and
2. Individual resale price maintenance.

### 1. Collective resale price maintenance

Under the collective resale price maintenance, the manufacturers of different brands of the same product or a close substitute enter into an agreement to observe retail price maintenance and notify it as a condition to all traders who draw supplies from them. Manufacturers impose sanctions against any trader who reduces the price.

### 2. Individual resale price maintenance

Under Individual resale price maintenance, there is no strict agreement with regard to resale price control. Retailers can look to alternative sources of supplies. Hence, collective resale maintenance is highly effective.

**The logic of resale price maintenance is that:**

* It helps retailers to be more profitable. Manufacturers may like this as they feel that if they keep retailers profitable, then retailers are more able to keep selling their goods.
* It prevents damaging price wars with retailers under-cutting each other in a race to the bottom.
* Provides support for smaller retailers, who cannot buy in bulk, to remain profitable. For example, small bookshops benefited from a RPM for books because they can’t benefit from purchase economies of scale. Since the removal of RPM on books, many smaller independent retailers have gone out of business, losing out to large scale distributors like Amazon.com
* It enables manufacturers to reward shops who promote their product through advertising. It also enables manufacturers to invest more in future products. For example, since the end of RPM in books and music, the industry claims it has lost some types of investment in music production and in the promotion of authors.
* RPM can also reward firms who provide a high quality of personal service. For example, without RPM, consumers can take the free advice of knowledgeable sales assistants and then go and buy online from a cheaper provider. In effect the online retailer who doesn’t offer any service is free riding on the ‘bricks and mortar’ shops who can offer a personal service.
* Consumers don’t have to waste time searching around for the best deal. They know the price will be the same where-ever they buy it.

**Criticisms of RPM**

* It artificially inflates prices, leading to a decline in consumer surplus and gives consumers less discretionary income to spend on other goods. It is allocatively inefficient as the price is likely to be above marginal cost.
* Artificially high prices may reduce incentives for manufacturers to remain internationally competitive. RPM enables an easy profit margin in domestic markets, but the result is that inefficient manufacturers may stay in business and lose the market incentive to cut costs and become more efficient.
* For example, when Dixon’s started to import cheap cameras from Hong Kong in the 1960s it was able to undercut British manufacturers who had relied on the old RPM to remain profitable.  British manufacturers who had been protected by RPM in the domestic market started to go rapidly out of business when cheaper imports were bought in. RPM had masked their decline in competitiveness.

**Resale price maintenance in India with respect to orders of Competition Commission of India**

Explanation (e) to s. 3(4) of the Competition Act describes that resale price maintenance includes any agreement to sell goods on condition that the prices to be charged on the resale by the purchaser shall be the prices stipulated by the seller unless it is clearly stated that prices lower than those prices may be charged.

Any RPM agreement constituting under section 3(4) e has to go through the test laid down by Section 19(3).

Section 19(3) of the Act states that while determining whether an agreement has an appreciable adverse effect on competition under section 3, the Commission shall give due regard to all or any of the following factors:

a) creation of barriers of new entrants in the market;

b) driving existing competitors out of the market;

c) foreclosure of competition by hindering entry into the market;

d) accrual of benefits to consumers;

e) improvements in production or distribution of goods or provision of services;

f) Promotion of technical, scientific and economic development by means of production or distribution of goods or provision of services.